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STEPHEN MARTIN

European University Institute, Florence

EUROPEAN UNIVERSITY INSTITUTE, FLORENCE

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European University Institute
Badia Fiesolana
I – 50016 San Domenico (FI)
Italy

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Stephen Martin
European University Institute
50016 San Domenico di Fiesole
Florence, Italy

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Abstract

A review of market structure and firm conduct in European food processing industries, as well as the policies of Member State governments to the movement of goods across borders, suggests that the pace of market integration in the sector of the EC economy will be slower than sometimes predicted.

JEL Classification: L66; O52

		% EC12
Employment	2,259,800	1.7
Production	350,451 million ECU	8.0
Exports extra-EC	24,360 million ECU	7.17
Imports extra-EC	19,833 million ECU	7.01
Intra-EC trade	50,083 million ECU	N/A

Table 1: **Food and drink in the EC economy, 1989**
Source: Commission of the European Communities, 1991b, ch. 15; trade data refer to food, drink, and tobacco sectors.

1 Introduction

Food processing industries link the agricultural sector of the economy with the final consumer. Their place in the EEC is important: in 1989, the food and drink sector ranked number two by output and number four by employment among EC industrial sectors. As Table 1 indicates, they account as well for a substantial portion of trade flows within the Community and between the Community and the rest of the world.

For this reason, the food sector is a test case for European economic integration. If integration succeeds in the food and drink sector, it can succeed everywhere. If it does not succeed in a sector like food and drink, with its high levels of intra–EC exchange, there is reason to suspect that integration will progress much more slowly than has been hoped. Here I examine the prospects for and problems of EC integration in the food and drink sector.

After reviewing the structure of European food processing industries and the firms that operate in those industries, I turn to an examination of the European Commission's predictions of the potential gains from the formation of a single European market in the food and drink sector. This discussion provides a background for an assessment of EC policy toward national measures that have tended to impede the free movement of food and drink products within the Community, and of protectionist attitudes in national markets.

Industry	France	Germany	Italy	U.K.
Bread	0.12	0.40	0.04	0.29
Canned vegetables	0.55	N/A	0.50	0.58
Flour	0.55	N/A	N/A	0.96
Processed meat	0.7	0.30	0.40	N/A
Salt	—	—	—	0.45
Sugar	—	—	—	0.24
Sugar confectionery	1.4	4.2	6.0	2.1
Baby foods	1.3	1.2	4.2	2.2
Beer	5.0	1.0	N/A	1.0
Biscuits	2.9	5.1	8.0	1.9
Mineral water	5.0	1.5	4.1	2.7
Pet foods	4.2	8.4	N/A	4.3
Soup	5.7	5.6	N/A	6.0
Soft drinks	2.2	3.8	5.4	1.2

Table 2: **Advertising–Sales Ratios, European Food Processing Industries**

Source: Sutton (1991, p. 107).

2 Markets and Firms

2.1 Overview

2.1.1 Advertising

At the risk of oversimplification, food product markets may be divided into two broad categories — those for relatively homogeneous products and those for which product differentiation is significant. The distinction between the two groups appears clearly, if approximately, in terms of spending on advertising. For commodity–type products, advertising–sales ratios are relatively low (Table 2): near zero for industries like bread, canned vegetables, flour, processed meat, salt, and sugar. Spending on advertising is typically much higher for product lines where branding and brand images are important, like biscuits, confectioneries, the various beverage industries, baby foods and pet foods, and soup.

Industry	France	Germany	Italy	U.K.
Bread	4.5	7.0	4.0	58.0
Canned vegetables	40.0	N/A	80.0	81.0
Flour	29.0	38.0	6.7	78.0
Processed meat	23.0	22.0	11.0	N/A
Salt	98.0	93.0	80.0	99.5
Sugar	81.0	60.0	72.0	94.0
Baby foods	88.0	83.0	88.0	80.0
Beer	82.0	25.0	55.0	59.0
Biscuits	62.0	49.0	46.0	62.0
Mineral water	77.0	27.0	55.0	73.0
Pet foods	86.0	93.0	N/A	83.0
Soft drinks	70.0	57.0	84.0	48.0
Soup	91.0	84.0	N/A	75.0
Sugar confectionary	51.0	39.0	29.0	38.0

Table 3: **Four–firm seller concentration ratios, European Food Processing Industries**

Source: Sutton (1991, p. 106).

2.1.2 Seller Concentration

The conventional economic index of the size distribution of firms is the so–called concentration ratio, the combined market shares of leading firms in the industry. Small values of the concentration ratio mean that an industry comes close to a competitive market structure; large values raise the possibility of oligopolistic behavior. Table 3 shows that there are substantial variations in seller concentration across sectors and across countries in the European Community. Some food industries have similar concentration levels in different national markets: salt, sugar, soup, pet foods and baby foods are highly concentrated in all four national markets described in Table 3; sugar confectionery is moderately concentrated throughout; and processed meat has a low concentration level in the three national markets for which data is available. In other cases, however, one or more national markets appears as an outlier. The bread and flour markets in the UK, for example, are much more concentrated than other EC member states. The German beer and mineral water industries are much less concentrated than in other EC member states.

Company	Country	FT 500 Rank	Turnover million $	Employees
Unilever	Netherlands/ UK	5	37,675.4	287,000
Nestlé	Switzerland	6	38,483.3	218,005
BSN Group	France	53	12,497.4	58,063
Cadbury Schweppes	UK	103	5,144.0	36,579
Eridania Beghin-Say	France	172	8,775.2	25,036
Associated British Foods	UK	173	6,031.1	51,724
United Biscuits	UK	204	4,756.3	38,698
Northern Foods	UK	258	3,090.5	20,219
Tate & Lyle	UK	269	5,024.4	17,004
Suedzucker	Germany	288	3,240.4	10,985
Bois Wessanen	Netherlands	298	2,044.3	6,572
Dalgety	UK	320	6,818.6	15,417
Hillsdown Holdings	UK	321	6,670.2	44,196
Saint-Louis Group	France	332	6,222.4	28,016
Danisco	Denmark	378	1,964.7	11,455
Parmalat	Italy	382	1,029.0	6,011
Unigate	UK	392	2,936.2	25,385
Fromageries Bel	France	435	1,156.9	6,352
Bongrain	France	479	1,712.5	8,217

Table 4: **1994 FT 500 Food Processing Companies**

2.1.3 Leading Firms

Another perspective on the structure of food processing industries is provided by Tables 4, 5, and 6, which describe EC firms in the food processing, brewing, and distilling sectors that appear in the 1994 *Financial Times* ranking (by market capitalisation) of the leading 500 European firms.

It is apparent from Table 4 that the European food processing firms fall into two distinct groups. Unilever and Nestlé are large, diversified firms that supply a wide variety of food products to markets all over Europe and all over the world. They are among the largest companies in the world, without regard to industrial sector.

They are also substantially larger than other European food processing firms, which tend to be strongest in a single home market and much more

Company	Country	FT 500 Rank	Turnover million $	Employees
Grand Metropolitan	UK	28	12,069.9	102,405
Guiness	UK	29	6,655.0	24,538
Allied-Lyons	UK	76	8,032.3	25,810
Bass	UK	93	6,569.6	84,095
Heineken	Netherlands	143	4,914.6	23,112
Whitbread	UK	151	3,579.0	64,665
Scottish & Newcastle	UK	191	2,309.9	28,487
Carlsberg	Denmark	229	1,652.4	13,777
Greenalis Group	UK	433	807.0	8,039

Table 5: **1994 FT 500 Brewing Companies**

Company	Country	FT 500 Rank	Turnover million $	Employees
LVMH	France	51	3,820.8	15,501
Pernod Ricard	France	164	2,557.5	9,381
Remy-Cointreau	France	470	1,053.5	3,419

Table 6: **1994 FT 500 Distilling Companies**

modestly diversified geographically than the two conglomerate giants. Leaving aside Unilever and Nestlé, 17 food processing firms appear among the FT 500. 8 of the 17 are based in the UK, 5 in France, one each in Denmark, Germany, Italy, and the Netherlands. These are not, at least not yet, European firms; they are national firms that operate in Europe.

The same can be said of the largest European brewing firms, which are almost all based in the UK, and the largest distilleries, which are all French. Firm operations in EC food processing industries have not yet made the food sector a single market; it remains a set of related, but independent, national markets.

For comparison purposes, Table 7 gives corresponding information for food sector firms from among the 1994 *Financial Times* ranking of the 100 largest US firms. It cannot be said that the largest US firms are consistently larger, in terms of sales or number of employees, then large European firms.

Company	FT 500 Rank	Turnover million $	Employees
Coca-cola	5	13,073.8	31,000
Pepsico	14	21,970.0	371,000
Anheuser-Busch Cos	67	11,393.7	44,871
Sara Lee Corp	69	14,580.0	138,000
Kellogg Co.	70	6,190.6	16,551
Campbell Soup Co.	85	6,263.2	43,256
General Mills Inc	86	7,777.8	121,290
Heinz (H. J.) Co	91	7,103.4	37,700

Table 7: **1994 FT Top 100 US Food Sector Firms**

2.2 Specific cases

By way of example, I discuss here two specific industries that are characteristic of some of the general difficulties that foodstuff industries present from the point of view of the completion of the single market.

2.2.1 The UK Salt Industry

White salt is a homogeneous commodity, produced by well-known techniques.[1] Two firms of almost equal size (British Industries and Imperial Chemical Industries) have together supplied about 95% of the market. The market is not competitive; one firm traditionally acts as a price leader. For a variety of reasons, however, UK producers do not face the prospect of serious rivalry from elsewhere in the EC (MMC, p. 44):

> There is little international trade in white salt between the Continent and the United Kingdom. ICI told us that it would not wish to engage in 'head–on' competition by exporting white salt on a large scale to major continental producing countries. Like the United Kingdom these countries have excess white salt production capacity. ICI felt that similar considerations would limit the attraction of importing white salt into the United Kingdom.

[1]This section is based on MMC (1986) and Rees (1991).

In addition to this lack of rivalry (a tacit agreement not to compete in a multimarket oligopoly), technical barriers to entry isolate national markets (MMC, p. 44):

> Any potential importer would have to set up some form of warehousing or bagging plant between the port and customers to meet the latters' requirements on delivery. Relative to United Kingdom production such imported salt would incur a double handling cost, initially at the ports for loading and unloading and subsequently in loading lorries for onward delivery although bagged salt could be imported in containers. Handling costs are significant given the low bulk value of salt. These costs, in addition to the cost of transportation, limit the extent to which imported white salt can compete with United Kingdom production. A few of the large purchasers of salt considered the possibility of importing white salt. In some cases it appeared feasible to ship white salt to a United Kingdom port but the cost of handling inland distribution proved prohibitive.

At least one of these barriers would not arise for shipment from one continental EC member state to another, namely, the need to load lorries on arrival in the importing market. The cost of transportation, however, will remain a barrier to substantial rivalry across intra–EC borders. The EC white salt market is most likely to evolve as a set of regional markets, each supplied by concentrated oligopolies[2] able to engage in limit pricing up to the level of a relatively slack constraint imposed by transportation costs that are high relative to production costs.

2.2.2 The German Beer Industry

The German beer industry is unusual in a number of respects. But its evolution suggests difficulties that are likely to confront the development of a truly European market in consumer good industries generally.

The German market is supplied by a large number of small brewers.[3]

[2]According to Sutton's (1991) market share tables, the two largest French firms supply about 90% of the market; the largest four German firms about 93%; and the largest four Italian firms about 80%.

[3]See Schwalbach (1985) and Geroski and Schwalbach (1989). Sutton (1991, p. 521) notes that small breweries are especially prominent in Bavaria.

While seller concentration has increased in recent years, it remains low relative to other European markets (Schwalbach, 1985, p. 176):

> The four–firm concentration ratio grew from 11.8% in 1958 to 37.8% in 1974, but fell thereafter to 34.3% in 1979 and 27.0% in 1982. The increase in concentration occurred almost exclusively due to mergers. Insufficient planning of firm acquisitions and inadequate coordination between acquired and acquiring firms led to the erosion of the market position of those acquiring firms. Instead, internally growing firms experienced a continuous increase in market share. The merger wave of the seventies resulting in a high degree of multi–plant operation. Each of the largest three firms operated on average with 28 plants. Post–merger rationalization led to considerable change in the plant structure. The three largest firms together bought 28 plants, closed 22, built 3, and sold 4 plants during the period 1970–1977.

This merger process reinforced the importance of branding and product differentiation (Sutton, 1991, p. 524):

> Many of the early mergers failed to generate the hoped-for results. With the wisdom of hindsight, it is possible to identify one factor that appears to be of relevance. The key ...merger between Dortmunder Union and Schultheiss aimed primarily at cost reductions achievable through rationalization on the production side. On the marketing side, the idea was to build up one brand at the expense of the other. As it happened, the combined sales steadily declined relative to the sum of the individual market shares of the companies acquired. In the case of those [mergers] that have been more successful in their acquisition strategy, the emphasis has been on continuing to market and support all brands acquired, while still rationalizing through closing down the breweries purchased and shifting production to other ...sites.
>
> The experience of the 1970s appears to have convinced most German brewers that success in expansion–by–acquisition is most easily achieved through a policy of the latter kind. Recent successful acquisitions have been based on a strategy of building upon the good will associated with the long–standing image of the acquired brand. Indeed, within the German market, premium status is to a

large degree associated with production at a well–known and long–established brewery.

In addition to the entry barrier created by product differentiation, long–term contracts between brewers and restaurants (up to twenty years) and transportation cost are impediments to potential entry.

Sutton (1991) argues theoretically and empirically that endogenous product differentiation — supported among other things by intense advertising — is a formidable barrier to entry that can support a minimum level of seller concentration even in large markets that seem otherwise able to support a competitive market structure. The experience of the German beer industry suggests first that non–German firms are most likely to be able to enter the German market via acquisition of existing German firms, and second that such entry, if successful, will generate relatively little in the way of consolidation of the number of brands. Brand proliferation, with the implied adverse impact on market performance, is if anything a more likely result.

3 Food Industries in the Single Market

3.1 Barriers at the borders

The case law of the European Community is replete with examples of national laws that have the effect of interfering with the free flow of goods across internal borders, even though they are not directly concerned with trade policy. Such decisions are fundamental to the formation of the Single Market. Some, however, confirm that national authorities can sometimes erect barriers to intra–EC trade, within the framework of Community law.

3.1.1 Cassis de Dijon and the Principle of Mutual Recognition

The Cassis de Dijon decision[4] is a preliminary ruling of the European Court of Justice in response to a request from a German court for guidance on interpretation of the Treaty of Rome, in particular Article 30, which regulates Member

[4] *Rewe–Zentral AG* v. *Bundesmonopolverwaltung für Branntwein* [1979] ECR 649; [1979] 3 CMLR 494. See also *Re the importation of pasteurised milk and cream: E.C. Commission* v. *United Kingdom* [1988] 2 CMLR 11; *Re German sausages: E.C. Commission* v. *Germany* [1989] 2 CMLR 733; *Re milk substitutes: E.C. Commission* v. *Germany* [1991] 1 CMLR 741; and *Re edible gelatine in meat: E.C. Commission* v. *Belgium* [1991] CMLR 755.

State quantitative restrictions on trade flows and measures that have an effect equivalent to such restrictions.

The origin of the ruling lay in an attempt by a German firm to import a French liqueur, Cassis de Dijon, into Germany. The liqueur had an alcohol content ranging from 15 to 20 per cent, which brought it into conflict with a German law requiring a minimum alcohol content of 32 per cent for such beverages. The Court used the ruling to circumscribe the considerations under which national authorities could restrict trade flows:[5]

> Obstacles to movement within the Community resulting from disparities between the national laws relating to the marketing of the products in question must be accepted in so far as those provisions may be recognised as being necessary in order to satisfy mandatory requirements relating in particular to the effectiveness of fiscal supervision, the protection of the public health, the fairness of commercial transactions and the defence of the consumer.

German authorities put forward a number of considerations of this type, seeking to defend the challenged restriction, but without success (emphasis added)[6]

> ...the requirements relating to the minimum alcohol content of alcoholic beverages do not serve a purpose which is in the general interest and as such to take precedence over the requirements of the free movement of goods, which constitutes one of the fundamental rules of the Community. In practice, the principle effect of requirements of this nature is to promote alcoholic beverages having a high content by excluding from the national market products of other member–States which do not answer that description. It therefore appears that the unilateral requirement imposed by the rules of a member–State of a minimum alcohol content for the purposes of the sale of alcoholic beverages constitutes an obstacle to trade which is incompatible with the provisions of Article 30 of the Treaty. *There is therefore no valid reason why, provided that they have been lawfully produced and marketed in one of the member–States, alcoholic beverages should not be introduced into any other member–State*; the

[5][1979] 3 CMLR 494 at 508–9.

[6][1979] 3 CMLR 494 at 510.

> sale of such products may not be subject to a legal prohibition on the marketing of beverages with an alcohol content lower than the limit set by the national views.

The italicized phrase is the *principle of mutual recognition*, which provides that products legally produced and marketed in one member State may legally be marketed in other member States (subject to the kinds of public welfare considerations previously indicated).

3.1.2 German champagne bottles and the Principle of Proportionality

This decision[7] concerns a German law that limited the use of champagne–type bottles to sparkling wines and specified types of wine not made from grapes. An attempt to import into Germany a French product, traditionally marketed in such bottles, prompted action by the EC Commission to have the Court of Justice declare the restriction in violation of Treaty provisions. Even though the limitation in question applied equally to foreign and domestic products, the Court found that it impeded intra–EEC trade:

> Producers in the exporting member–State who wished to market *pétillant de raisin* in the Federal Republic of Germany would in fact be obliged to bottle that product for the specific market in bottles different from those which they use in the country of origin as well as on the market of other member–States. It would thus be more difficult or costly for them to market *pétillant de raisin* in the Federal Republic.

The implied cost differential created for non–German suppliers was sufficient to support the finding that the regulation in question was inconsistent with Community trade law.

German authorities also argued that the law served to protect consumers, by preventing confusion as to the type of product being purchased. Here the Court invoked the *principle of proportionality*, noting that existing labelling requirements, which included a statement of both the nature and the alcoholic content of the product, were sufficient to accomplish the same purpose without restricting trade.

[7] *Re the use of champagne–type bottles: E.C. Commission* v. *Germany* [1988] 1 CMLR 135.

3.1.3 Reinheitsgebot

Another example is provided by a decision involving a German beer purity law.[8] The effect of the law in question was that beverages commonly marketed as 'beer' throughout the European Community could not be so marketed in Germany, because they did not meet certain ingredients restrictions. German authorities defended the restriction on the ground that it was necessary to protect the public health; the Court found this to be excessive[9]

> ...in so far as the German rules on additives in beer entail a general ban on additives, their application to beers imported from other member–States is contrary to the requirements of Community law..., since that prohibition is contrary to the principle of proportionality ...
>
> ...by prohibiting the marketing of beers lawfully manufactured and marketed in another member–State if they do not comply with sections 9 and 10 of the Biersteuergesetz, the Federal Republic of Germany has failed to fulfil its obligations under Article 30 of the EEC Treaty.

3.1.4 Disposable beer cans and protection of the environment

The background to this decision is an extended skirmish between national authorities and the EC Commission (CEC, 1988, pp. 420–421):

> In 1977, the Danish government enacted decree 136, which banned the imports of soft drinks in non–refillable containers. Three years later, the European Commission ruled against decree 136—reasoning that it violated article 30 of the Treaty of Rome—and the Danish government promptly replaced it with decree 397, which banned the sale of soft drinks and beer in non–refillable bottles, imported or domestic. While on the surface it would appear that this does

[8] *Re purity requirements for beer: E.C. Commission* v. *Germany* [1988] 1 CMLR 780; see also *Re purity requirements for beer: E.C. Commission* v. *Greece* [1988] 1 CMLR 813; *Ministere Public* v. *Gerard Deserbais* [1989] 1 CMLR 516; and *The State (Italy)* v. *Enzo Nespoli and Giuseppe Crippa, Re low-fat cheese: E.C. Commission* v. *Italy* [1992] 2 CMLR 1.

[9] [1988] 1 CMLR 780 at 811.

> not discriminate against importers, the transportation costs of two-way bottles makes them impractical over about 200 km—a distance easily surpassed when exporting to Denmark. ...
>
> In 1982 the European Commission opened a new case against decree 397, but before it could be referred to the European Court, the Danish government introduced decree 95, which modified decree 397 by permitting the sale of non–refillable containers, but only in limited volumes and only if a return and mandatory deposit system on non–refillables was introduced. Decree 95 went into effect in April 1985. This last substitution of one decree for another has succeeded in keeping the case out of court at least [until January 1988].

Arguments that led to a Court of Justice decision were in fact held in September 1988.[10] The result was a partial success for Danish authorities[11]

> The protection of the environment has already been considered by the Court...as 'one of the essential objectives of the Community' which may, as such, justify certain restrictions on the principle of free movement of goods. Furthermore this assessment is confirmed by the Single European Act.
>
> ...it must be concluded that protection of the environment is a mandatory requirement which may limit the application of Article 30 of the Treaty.

The Court of Justice held that a requirement to set up a deposit–and–return system was an essential part of a system to bring about the use of reusable containers, and as such did not conflict with the principle of proportionality. It found, however, that the requirement to use only bottles approved by the National Agency for the Protection of the Environment was excessive:[12]

> ...the system at present in force in Denmark enables the Danish authorities to refuse approval to a foreign producer even if he is prepared to ensure that returned containers are used again.
>
> In such a situation a foreign producer who nevertheless wishes to sell in Denmark would be compelled to manufacture or purchase

[10] *Re disposable beer cans: E.C. Commission* v. *Denmark* [1989] 1 CMLR 619.

[11] [1989] 1 CMLR 619 at 630–31.

[12] [1989] 1 CMLR 619 at 631.

Product Sector	Share	Example of barrier
Biscuits and cake	3.87	Carotine restriction for biscuits and cake (UK)
Chocolate & confectionary	3.92	Vegetable fat restriction for chocolate (France)
Ice cream	1.13	Vegetable fat restriction for ice cream (Germany)
Beer	3.01	Recycling law for beverages (Denmark)
Mineral water	0.63	"German water bottles" requirement (Germany)
Soft drinks	1.83	Aspartame restriction in soft drink industry (France)
Spirits	0.69	Double inspection for spirit imports (Spain)
Pasta	1.16	Pasta purity law (Italy)
Soup & baby food	1.34	Label detail for soup (Spain)
Total	16.6	

Table 8: **Foodstuffs product sectors, "Cost of non–Europe" study**
"Share" indicates percentage share of 1985 EEC household food expenditures.
Source: Commission of the European Communities, 1988, pp. 414–415.

containers of a type already approved, which would entail considerable extra cost for him and would therefore make it very difficult to import his products into the country.

Community law does not seek equal treatment of domestic and foreign producers, where the result is differentially higher costs for a foreign producer to serve a particular market. The principle of reciprocity requires that a product able to be sold in one Member State is also able to be sold in other Member States.

Nonetheless, this episode demonstrates that national authorities are often motivated to pursue measures that have the effect of erecting barriers to intra–EEC trade around their home markets. Provided such measures can be tied to some non–commercial goal of the Community, they may survive.

3.2 Gains from Completion of the Single Market?

The Single European Act was adopted to eliminate the subtle barriers to trade within the Community, of the kind involved in the Court of Justice decisions treated above, that persisted after conventional barriers—quotas and tariffs—had been eliminated. In its study on potential gains from completion of the Internal Market, the Commission identified the following types of barriers to internal trade in foodstuffs (CEC, 1988, pp. 416–18; see also CEC, 1985):

- specific ingredients restrictions: prohibition of the sales of products containing particular additives; for example, prohibition of the sale of beverages containing certain artificial sweeteners in France;

- content/denomination regulations: prohibition of the use of a generic name unless specific content requirements are met, i.e., the German beer purity law;

- packaging/labeling laws, which raise the cost of marketing by requiring different packages or labels in different Member States;

- fiscal measures that effectively discriminate against importers;

- specific importing restrictions: import licenses, health registration requirements, border inspections, product testing, and the like.

Examples of such barriers are shown in Table 8; as the continuing stream of cases before the European Court of Justice shows, there is no immediate prospect that such barriers are in danger of extinction.

The EC Commission's *Cost of non-Europe* study identified both direct and indirect benefits from completion of the internal market in foodstuffs. Direct benefits were expected to flow from the elimination of the main barriers identified above (CEC, 1988, pp. 423–424):

- use of less expensive ingredients;

- reduction in labeling and packaging costs; and

- elimination of "red tape" surrounding the importing process.

Table 9 summarizes the quantitative assessment of direct benefits, held to be between 500 and 1,000 million Ecu per year. This is between 2 and 3 per cent of foodstuff industry value added. Table 10 identifies sectors thought most likely to be affected by completion of the internal market.

The single most important source of direct savings is a predicted shift to less expensive ingredients as barriers to intra-EEC trade fall. That such substitution will in fact occur is open to question (Fallows, 1990, pp. 27–28):

Barrier category	Share (%)	Amount) (million Ecu)
Vegetable fat restriction in chocolate	30	150–300
Beer purity laws	23	115–230
Vegetable fat restriction in ice cream	12	60–120
Pasta purity laws	9	45–90
Saccharimetric content in beer	5	25–50
Plastic containers in Italy	5	25–50
Other	17	85–170
Total	100	500-1000

Table 9: **Sources of estimated direct benefits from removal of barriers to internal trade, foodstuffs product sectors, "Cost of non–Europe" study**

Source: Commission of the European Communities, 1988, p. 425.

NACE code	Sector	Share in Value added (%)	Share in employ-ment (%)	Share of intra–EC imports in demand (%)
425	Wine & wine–based products	0.34	0.16	N/A
427	Brewing and malting	1.21	0.72	3.27
428	Soft drinks & spa waters	0.53	0.35	4.56
417	Spaghetti, macaroni, etc.	0.14	0.14	6.72
421	Cocoa, chocolate, & sugar confectionary	0.72	0.79	12.98

Table 10: **Foodstuff sectors most affected by the Internal Market**

Source: Buigues et al., 1990, p. 24.

> ...it is estimated in the Cecchini Report that major economic benefits will accrue to the food chain. There remains a debate over the extent of the potential benefits with many viewing Cecchini's estimate of (500-1000m ECU) as over optimistic. There appears to be a view in the Cecchini estimates ...that every manufacturer will shift to cheaper ingredients if this is permitted through changes to compositional requirements. This is contrary to present views on the food sector generally where it is recognised that consumers are increasingly seeking out quality products rather than the cheaper generic items.

Without venturing to make quantitative estimates, the Commission suggests that indirect benefits from completion of the internal market will exceed the direct effects. Sources of such indirect benefits are (CEC, 1988, pp. 427–429)

- the broadening of consumer choice;
- increases in trade (particularly for the German beer industry and the Italian pasta industry);
- increases in efficiency, possibly following accentuated industry restructuring and consolidation.

It is specifically suggested that cost savings from the realization of greater economies of scale are possible in the German beer industry (CEC, 1988, p. 431). There is also an analogy with trends among U.S. food product firms to suggest a possible line of development for the EC (CEC, 1988, pp. 434–5):

> ...US food companies have been pursuing a two-fold strategy in their domestic market: become the dominant brand in a product sector, and achieve nationwide coverage. The logic underlying this strategy is straightforward. Within a product sector, profitability of brand leaders is greater than that of "second-tier" brands..., and nationwide coverage maximizes volume over which fixed costs....can be amortized...
>
> In recent years, US food groups have been reevaluating their product portfolios. Rather than dominating a region with a diverse range of unrelated products, they are now focusing on achieving nationwide brand dominance with a selected product range. As a

result, US companies have been acquiring new companies and, more importantly, "swapping" business units with each other to realize their dual objectives.

It is a standard result of economic models of market structure that in the presence of fixed costs, increases in market size—of the kind that would come with the completion of the internal market—allow firms to spread fixed costs over a greater output, resulting in exactly the kind of cost saving highlighted above. To the extent that such cost savings depend on transnational consolidation and restructuring, with a reduction in the number of firms,[13] then they will be realized only if national authorities go along with such mergers and restructurings. As will be seen presently, there is reason to doubt that this is the case.

There is, it should be noted, a certain inconsistency between the first and third sources of indirect benefits cited above. There are, no doubt, efficiency gains to be had by a restructuring that consolidates production of a range of competing varieties under the authority of a single firm. But realizing such economies will require a reduction in the number of competing brands, as firms act to limit unprofitably close competition among its own varieties. Such a reorganization of product lines will tend to narrow the range of consumer choice, not broaden it.

3.3 National Chauvinism?

3.3.1 Merger patterns in EC foodstuffs

As shown in Table 11, the intertemporal pattern of EC food sector mergers has tended to follow that of EC mergers overall. The food sector is typically the second most active field for EC mergers, behind the chemical sector; in 1991/92, more mergers occurred in the food and drink sector than in any other. But as Table 11 makes clear, and as the Commission has noted, most such mergers are national (CEC, 1991a, p. 227)

[13]Theoretical results are sensitive to details of specification. In model of Cournot oligopoly in a market with constant price elasticity of demand, a doubling of market size implies that the equilibrium number of firms rises by the square root of two (Sutton, 1991, p. 31). With linear demand, on the other hand, the equilibrium number of firms is roughly proportional to market size (Martin, 1993, p. 176).

Year	National	Community	International	Total Food Sector	Total All Sectors
83/84	7	2	2	11	155
84/85	20	1	1	22	208
85/86	25	7	2	34	227
86/87	39	11	2	52	303
87/88	25	18	8	51	383
88/89	35	27	14	76	492
89/90	41	44	17	102	622
90/91	29	26	16	71	455
91/92	32	23	6	61	383

Table 11: **Acquisitions of majority holdings (including mergers), European Community Food and Drink sector**
Source: EC Commission, Annual Report on Competition Policy, various issues.

> The number of mergers in [the food and drink] sector increased considerably in 1989/90. During this period there were 102 such operations (+34%), or one–sixth of all operations in industry. Compared with chemicals, national operations have a greater weight, but an intensification of Community operations is undeniably taking place.
>
> The degree of concentration is much lower than in the chemical industry, but it is generally higher nationally than at Community level because of the barriers to trade which continue to exist. Owing to the still highly compartmentalized nature of the Community market, firms with a comparatively small turnover are able to occupy a leading position in their home market.

The national character of food industry mergers continues (CEC, 1993, p. 501):

> In Germany, most of the takeover activity that took place in the food and drink sector during the last year was related with the former GDR. Eight out of the 13 cases registered in Germany during that period had as their target a company located in the five new *Länder*. ...the purchasing company was often a German subsidiary of another company of non–German origin. Nestlé and Unilever are examples of this. In the case of France, two thirds of the deals were

domestic operations. The domestic character of the transactions in this sector was even more clear in the case of the United Kingdom. Only one of the 12 mergers and takeovers which targeted UK-based companies had an international dimension. It is also worthwhile to mention here the great activity deployed by British holding companies in the food and drink sector. Three British companies, Grand Metropolitan, Hillsdown Holdings and Northern Foods, accounted for 14 of the 52 takeovers and mergers registered in the Community in 1991/92. Grand Metropolitan by itself was the acquiring company in 7 out of 19 takeovers and mergers of Community dimension which took place [in 1991/92]. Hillsdown Holdings and Northern Foods accounted for almost two thirds of the domestic operations registered in the United Kingdom.

3.3.2 Perrier

The 1992 *Perrier* episode, an unsuccessful attempt by Fiat interests to diversify into France, illustrates the kinds of barriers facing business interests that seek to operate at the Community level. This is a fascinating case in which a large, diversified Community industrial group failed to take over a French firm, despite careful preparation and despite apparently reaching a 49% ownership share of the target firm.

Over a period of five years, Fiat cultivated links with a major French investment bank, Lezard Frères, and with the largest French food processing firm, BSN (see Table 4). Fiat interests and BSN exchanged minor shareholdings, and representatives of each group sat on various boards of directors of the other. BSN, initially a Fiat ally in its efforts to acquire control of Perrier, apparently became anxious about the prospect of entry by an important conglomerate into its own home markets. Rightly or wrongly, the takeover attempt was portrayed as damaging to interests of minority shareholders. At a certain point, Fiat's entitlement to 13.8% out of its 48.8% share of Perrier was nullified on the ground that it followed earlier transactions that violated French financial regulations.

Nationalist sentiments were an important factor in the outcome (de Jonquières, 1992, p. 14):

> ...the high–powered public relations campaign...effectively branded the Agnellis as menacing interlopers and Nestlé as the acceptable face of French capitalism. ...

Just as remarkably, the campaign succeeded in portraying Nestlé, a company from a non–EC country not renowned for respecting minority investors, as a shining champion of disenfranchised French shareholders.

In its discussion of the compatibility of the eventual takeover of Perrier by Nestlé, the Commission noted among other things that (CEC, 1993, p. 148)[14]

> Nestlé and BSN had engaged in clear joint deterrent action *vis–à–vis* newcomers by jointly opposing the public bid of the Agnelli group and by sharing Perrier between themselves.

In attempts to extend operations through the Community, European firms will face not only administrative barriers erected by Member State governments, but also the lively possibility of strategic reaction by firms based in the target markets. As our review of European Court of Justice decisions indicates, the former type of impediment can be controlled by the European Commission. The latter, which is inherent in oligopolistic markets, is much more difficult to prevent.

4 Conclusion

The EC Commission has been vigilant in attacking non–tariff and quota barriers to trade flows between Member States. The history of the EC foodstuffs industries suggests that this is a necessary but not sufficient strategy for the development of truly single foodstuffs markets in the Community.

The first obstacle is nationalist attitudes of Member State governments. The realization of efficiency gains from the formation of the Single Market will

[14]The aftermath is not without interest from the point of view of the development of the Commission's approach to merger control (CEC, 1993, p. 149):

> In order to avoid a prohibition decision, Nestlé entered into a commitment *vis–à–vis* the Commission by which it undertook to divest a number of sources and brands, the total of which will amount to 3 000 million litres of water capacity. This capacity represents approximately 20% of the total capacity previously held by Nestlé, Perrier and BSN. The divestiture must be made to a strong purchaser to be approved by the Commission and create a viable competitor able to effectively compete with Nestlé and BSN on the French water market.

require consolidation. That will often require a reduction in the number of firms in the Community, and a reorganization of production in more efficient units. If nationalist authorities act to minimize the mergers and concentrations that are the primary vehicle for such reorganizations, efficiency gains will be long in coming.

The second obstacle to market integration is the nationalist attitudes of the suppliers of what have been oligopolistic national markets. When firms in each Member State make investment decisions based on commercial opportunities in all Member States, there will be a Single Market. So long as firms seek primarily to become the leading firm in their home Member State, forbearing opportunities to compete vigorously in other markets for fear of inviting responses that will interfere with their own quiet life, the Community will be a set of related markets, with some gains in efficiency realized but many foregone.

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